

BSGAR: Mutual Trading Status vs Association Charitable Incorporated Organisation (CIO)

A Charity exists to benefit the public. Based on BSGAR's current organisation two options for charitable status plus current mutual trading status have been considered below.

Option 1: Mutual Trading Status (current status)	Option 2: Association Charitable Incorporated Organisation (CIO)
<p>Description Summary: The principle of mutual tax status is that a group of persons contribute to a common fund which is held on their behalf and controlled by them. The fund is thus held by the co-operative but not owned by it so that any surplus after paying expenses is not regarded as a taxable profit. It does not have its own legal identity, i.e. BSGAR doesn't exist at Law, it operates and exists through its management committee.</p>	<p>Description Summary: Charitable Incorporated Organisation (CIO) was introduced in March 2013. It is a form of legal entity designed for non-profit organisations. As it is a corporate organisation it has 'legal personality' and the ability to conduct business in its own name and limited liability so that its members and trustees will not have to contribute in the event of financial loss. CIOs only need to register with the Charity Commission and not Companies House as well.</p> <p>An <i>association</i> CIO has a smaller group of trustees and a wider group of members. This would be appropriate for BSGAR which operates with different categories of members.</p>
<p>Tax: The co-operative trades as an agent of the members and not as principal. If the co-operative trades as principal any profit from that trade might/would be regarded as taxable. To avoid this the cooperative's income must come from members and payments from that income must be confined to the members from whom it is derived. What does this mean for BSGAR? The revenue from non-members attending workshops and Annual Conferences is taxable. Tax for 2021 was £655.</p>	<p>Tax: CIOs don't pay tax on most types of income (use for charitable purposes). Can claim back tax that's been deducted e.g. bank interest, donations (Gift Aid). Will have to pay tax if doesn't qualify for tax relief, i.e. spent income on non-charitable purposes. What does this mean for BSGAR? The tax that must be paid currently by BSGAR as mutual trader on non-members delegate fees would not have to be paid if BSGAR became a CIO. Therefore, saving of approx. £600 per annum. This could vary annually dependent on activities.</p>
<p>Reserves. Reserves must not exceed what the Inspector of Taxes considers a reasonable level. As a general rule if the reserves are considered unreasonable the co-operative can be required to declare a distribution to the members which is then taxable (in the members' accounts). Alternatively, it is possible that part of the charges paid by members would not be allowed as a deduction from income within their own tax computations. What does this mean for BSGAR? If the reserve is kept at the amount which could pay for an unsuccessful Conference and</p>	<p>Reserves. Reserves can be held but there must be a reserves policy.</p>

<p>money used for Research/Training Grants etc as discussed this is not likely to be a problem.</p>	
<p>Additional Costs: 2021 Accountant costs: £900.</p>	<p>Additional Costs: Estimated approximately £2000 + VAT. This is because as a CIO the format of accounts becomes a lot more rigid and more importantly there are a lot more disclosures required which brings with it a not insignificant amount of additional work.</p>
<p>Annual Work/Administration: BSGAR Treasurer liaison with Accountant for BSGAR accounts and tax returns.</p>	<p>Annual Work/Administration: (1) BSGAR Treasurer liaison with Accountant for the submission of BSGAR accounts. (2) Keep register of members and trustees. (3) Send accounts and annual return to the Charity Commission, regardless of income. (4) Send any constitution changes to the charity commission.</p>
<p>Governing Document: BSGAR Constitution.</p>	<p>Governing Document: Charity Commission's model association CIO Constitution needs to be used as a template. No amendments are valid until the Charity Commission approves them. <i>What does this mean for BSGAR?</i> If the decision is taken to establish as a CIO, the existing BSGAR Constitution will no longer be applicable and the governing document of BSGAR going forward will be the CIO Constitution only. No changes will be made to the original Constitution, it will simply cease to exist.</p>
<p>Advantages:</p> <p>(1) It enables reserves to be accumulated within the co-operative without Liability to corporation tax.</p> <p>(2) No further action is required from BSGAR.</p>	<p>Advantages:</p> <p>(1) Limited liability structure. i.e. no continued risk of personal liability of the Trustees provided they have not acted in breach of trust, breach of duty, gross negligence, fraud or criminal activity. This could make it easier to attract new trustees in the future.</p> <p>(2) Employ paid staff in its own name.</p> <p>(3) Enter into Contractual agreements in its own name.</p> <p>(4) Tax relief and opportunity benefit from Gift Aid from any donations (subscriptions would not qualify for this).</p> <p>(5) Opportunity to apply for Grants.</p> <p>(6) Holding the status of being a Charity could raise the profile of BSGAR.</p>
<p>Disadvantages:</p> <p>(1) Don't have status of being a charity and the accompanying message that BSGAR's work is for the benefit of the wider community.</p>	<p>Disadvantages:</p>

<p>(2) Taxed on non-member contributions/fees. (3) No options to apply for Government Grants. (4) As an unincorporated entity, should BSGAR incur liabilities in excess of its assets, the members of the Management Committee could be jointly and severally liable to contribute from their personal assets to the shortfall in BSGAR's assets.</p>	<p>(1) CIO can only change its written constitution with a written members' resolution unanimous vote or by a resolution passed by a 75% majority of votes cast at a general meeting of the members of the CIO. (2) Stricter regulation and administration required when amending the constitution. (3) Wording of the objects of the CIO need to be carefully considered and time spent reviewing the draft CIO constitution to ensure it is 'right'. (4) Increased administrative burden with accounting. (5) Establishing as a CIO will take some time, effort and cost (est £2500-£2950 + VAT)</p>
<p>Action Required: None.</p>	<p>Action Required: <i>Indicative timescale: 6 months but also depends on any backlog at the Charity Commission when the application is submitted.</i></p> <p>(1) Decide to register BSGAR as a charity. (2) Communication and Agreement from membership. (3) Draft new constitution. (4) Identify first charity trustees. (5) Finalise Constitution and Trustee Declaration for signature by the first trustees. (6) Prepare online application for registration with the Charity Commission – information to be included on the proposed activities, finances and funding. (7) Application finalised and submitted to Charity Commission. (8) Correspond with the Charity Commission as required. (9) Transfer assets to the new CIO – may require drafting a Transfer Agreement if Required. Membership votes to dissolve the old structure and move to the new. (10) Advise on registration formalities and related matters. (11) New bank account(s) will be required and letterheads/details updated to show the CIO's name and charity number. (12) Operate through new CIO.</p>

Draft CIO constitution template:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1076198/Association_Model_Constitution_280422.pdf